

City of Detroit

CITY COUNCIL

IRVIN CORLEY, JR.
DIRECTOR
(313) 224-1076

FISCAL ANALYSIS DIVISION
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ANNE MARIE LANGAN
DEPUTY DIRECTOR
(313) 224-1078

TO: COUNCIL MEMBERS

FROM: Irvin Corley, Jr., Director *WCJ*

DATE: February 3, 2010

RE: Budget Department Quarterly Financial Report for the Period Ending
September 30, 2009 and Mid Year Budget Analysis from Fiscal Analysis
Division

Executive Summary

The Quarterly Financial Report submitted by the Budget Department is based on a court case and is limited in scope. Even so, the department's report for September 30, 2009 shows a deficit ranging from \$60.1 million to \$80.0 million for the current fiscal year ending June 30, 2010.

The Deficit Elimination Plan submitted by the Administration in November 2009, reports an accumulated deficit of \$394.0 million as of June 30, 2010. The \$394 million total is comprised of the June 30, 2008 audited accumulated deficit of \$219 million, a projected \$106 million June 30, 2009 operating deficit, and a \$69 million shortfall for the current fiscal year. The Deficit Elimination Plan contains many initiatives that have not materialized as of the date of this report.

The Quarterly Financial Report and the Deficit Elimination Plan are basically consistent in the estimates presented by the Administration.

Using December 31, 2009 data from the financial reporting system, the Fiscal Analysis Division staff estimates an accumulated deficit of \$464.1 million using our most conservative assumptions and based on trends. This estimate starts with the audited \$219.2 million accumulated deficit as of June 30, 2008, a projected \$109.1 million operating deficit as of June 30, 2009, and up to an \$135.8 million deficit for the current fiscal year.

The initial concern is that based on either estimates, it is clear that the city continues to operate in a deficit. The first step to addressing the accumulated deficit facing the city is to balance the current year's operations. Expenditures must match revenues, and unfortunately the revenues continue to decline on an annual basis, in order to avoid continuing operational deficits.

The second concern is the proposal by the Administration to substitute Fiscal Stabilization Bonds for the short-term borrowings the Administration has relied upon to address cash flow problems created by the increasing amount of the accumulated deficit. The short-term borrowing, in the form of tax and/or revenue anticipation notes has reached the \$250 million level on an annual basis in order to address an accumulated deficit of \$219.2 million.

Now, the plan is to replace the short-term borrowing with \$250 million in Fiscal Stabilization Bonds and address the June 30, 2010 accumulated deficit, a deficit that could reach \$464.1 million.

The question becomes: how can the City manage cash flow issues created by an accumulated deficit that is double in size, \$219.2 million to \$464.1 million, with the same level of borrowing of \$250 million?

Council must maintain a vigilant position and encourage a quicker response by the Administration to address the dire fiscal challenges facing the City of Detroit.

Background

On January 6, 2010 the Budget Finance and Audit Standing Committee received the Quarterly Financial Report prepared by the Budget Department for the period ending September 30, 2009. Attachment I is a copy of the report from the Budget Department.

The Quarterly Financial report is required by Circuit Court order in resolution of the City Council for the City of Detroit v Walter I. Stecher case filed in 1984 and resolved around 1987. The original report include six major revenue sources, Municipal Income Tax, Current Year Property Tax, Utility Users Tax, State Equity Package, State Revenue Sharing, and Federal Revenue Sharing. Over the years, the revenue sources from Federal Revenue Sharing and State Equity Package have ended and are no longer included in the report. The original seven agencies are still included in the report. **One item that appears to have been dropped over time, and should be restored to the report as a major expenditure item is the Non-Departmental appropriation for the subsidy to the Department of Transportation.** Attachment II is a copy of the order that states, "b. Part II shall be supplemented by the inclusion of an estimate of the non-departmental subsidy for the Department of Transportation."

The current Quarterly Financial Report as submitted includes four major revenue sources and general fund appropriations for seven agencies. The four remaining revenue sources represent 43.7% of the 2009-10 adopted general fund budget, and the seven departments represent 47.8% of the appropriations in the budget.

Council may want to consider working with the Administration to enhance and expand the amount of information included in this report and the frequency of the reporting. This could be done in conjunction with the current request by Council to receive regular

financial and cash flow forecasts and analysis from the Administration. It is worth noting that at the time of the court order the city was using a financial reporting system where expenditure and revenue information and statements were available on a monthly basis only, whereas the current financial system has the capability to produce the similar types of reports anytime during the month and has on-line access capabilities. Over time dropping information from the report has been readily embraced by the Administration, but replacing or adding relevant data has not been.

Upon receipt of the Quarterly Financial Report by Council from the Budget Department, the Fiscal Analysis Division prepares an expanded and updated report in the same format. The expanded report includes the Casino Gaming Fees as a major revenue source increasing the percent of revenues reported to 57.3%. The updating of the report includes information as of December 31, 2009, to provide more current data and identify developing trends.

Summary of the Budget Department Report for September 30, 2009

Even with the limited data presented by the report from the Budget Department, combining the seven major agencies and four major revenues the best case reported is a \$60.1 million deficit, and the worst case is an \$80.0 million deficit. If this is typical of the general fund in total, than even the Administration's analysis, and they do report a \$69 million deficit estimate in their cover letter, projects another deficit in the current year. The current Administration's stated plan was to balance the current budget before addressing the accumulated deficit it appears they are willing to accept at least one additional year of adding to the accumulated deficit.

City Council may want to request the plan of action and necessary appropriation reduction(s), transfer letters, or revenue amendments to bring the budget back in balance. This would be consistent with charter requirements and compliance with the State Uniform Budgeting and Accounting Act.

In addition, an up to date analysis of the deficit elimination plan from the administration would be in order as it appears that plan does not have enough "juice" to address the current year's operating deficit.

Part I - Major Sources of Revenues

For the four major revenues included in the Budget Department report, a revenue deficit range of \$72.7 million to \$80.0 million is estimated. Each of the individual revenues sources is estimated to end the year with collections below budgeted amounts. It is worth noting that the current year's budget reduced the amount of estimated revenue from these sources, however the current analysis from the Administration and our own analysis indicate that the reductions were not sufficient.

In Municipal Income Tax a deficit range of \$25.0 million to \$32.3 million is estimated. On a percentage basis these collections estimates represent a 10.2% to 13.2% shortfall.

The amount collected through September 30, 2009 is \$44.5 million and is \$16.7 million, or 27.2% below the budget for the reporting period. In order for the year ending estimate to be realized a considerable up turn in collections from the first quarter will have to take place.

Current Year Property Taxes are reported as ending the year in a balanced to \$3.0 million deficit range. The collection of property taxes, allowing for the payment of half taxes in August and January, distorts the first quarter comparison to budget. Collection of one half or even slight more than one half of the annual total of current property taxes could be expected by the end of the first quarter, in September. Based on the collections shown and half tax payments, the year ending estimate might be optimistic.

It appears that the Budget Department is relying on the assumption that the County of Wayne will make the City of Detroit whole on all or most of current year delinquent taxes. While delinquent property taxes are transferred to the County of Wayne for collections, and the County does sell bonds to reimburse the local communities for the delinquent property taxes. However over time the County will reduce reimbursement based on overall historical collection patterns and administrative costs. While there is a reserve on the financial statements for this, adjustment to the reserve at year end should be considered in the analysis of this account's current year collections.

For **Utility Users' Tax** a balanced to \$5.0 million deficit estimate is reported. A \$5.0 million collection shortfall in Utility Users' Tax represents a 9.0% collection reduction from the budget. The Budget Department report does indicate that first quarter collections are \$10.8 million lower, 78.6%, lower than the budget for the period. The assumption being made that collection will improve over the remainder of the year.

State Revenue Sharing collections are estimated to deficit by \$39.7 million, or 14.4% below the budget amount. The Budget Department estimate appears slightly \$1.8 million more optimistic than the State Treasurer's estimate for January 2010 of a \$41.5 million reduction in State Revenue Sharing.

Part II – General Fund Appropriations

For the seven agencies included in the report, Department of Public Works, Finance, Fire, Health, Police, Public Lighting, and Recreation, appropriation surpluses range from zero for Public Lighting to \$6.0 million for Police. The combined total projection for all seven agencies is estimated at zero to \$12.6 million surplus.

For fringe benefits, excluding pensions, the Budget Department indicates neither a surplus nor deficit is estimated.

Even with the limited data presented by the report from the Budget Department, combining the seven major agencies and four major revenues the best case reported is a \$60.1 million deficit, and the worst case would be an \$80.0 million deficit. If this is typical of the whole general fund, then even the Administration's analysis, and they do report a \$69 million deficit estimate in their cover letter, projects another deficit in the

current year. The current Administration's stated plan was to balance the current budget before addressing the accumulated deficit it appears they are headed to at least one additional year of adding to the accumulated deficit.

Deficit Elimination Plan and Budget Securitization Initiatives and Turnaround Team Recommendations

Considering the impact the implementation and progress on the items included in the deficit elimination plan, securitization initiatives included in the budget, or Turnaround Team recommendations have on the efforts to balance the current budget and surplus/deficit projections, Council may want an up to date analysis of the items from the Administration. Or if other initiatives have been identified that will help address the projected deficit for the current year. This analysis should include the amount of savings identified and the assumptions included in the savings estimates.

Some of the initiatives included in the Administration's deficit elimination plan:

- Emergency Account Receivable Collections
- DTE Escrow Account (GDRRA Electric/Steam Agreement)
- Greektown Casino Payment
- Crisis Turnaround Team/Operational Restructuring (OR Room)
- Department of Transportation Stimulus Funding for Operations

Securitization Initiatives

Council may want a progress reports or results on balancing initiatives included in the 2009-10 Budget such as any type of tunnel, parking system or lighting system securitization totaling \$275 million. For our analysis of the current year these items offset the inclusion in the budget of the estimated prior year's deficit totaling \$280 million.

Turnaround Team Recommendations (targeted for implementation this year)

Attachment III – Bing Administration Crisis Turnaround Team Action Items is taken from the City of Detroit website for the Mayor's Office and is provided to highlight those items recommended that could provide savings for the City of Detroit and that Council may want to inquire on the progress of.

Fiscal Analysis Division Analysis for December 31, 2009 – Attachment IV

Attachment III is the expanded report, with the inclusion of Casino Gaming Fee revenue, and updated through December 31, 2009, in the same format as the Quarterly Financial Report from the Budget Department. In comparing the two reports Council Members can take note of the following highlights.

Municipal Income Tax – Income tax collections recorded in the financial reporting system through December 31, 2009 are \$97.8 million compared to a budget of \$245.0 million. Over a five-year period the December 31st collections of income tax represented around 43% of the total collections for the fiscal year. Based on this pattern net income tax collections at the end of the year will be in the \$225.0 million range, or a deficit of \$20.0 million.

However, should the pattern of collection to budget continue, that is in September of \$16.7 million under budget, and in December \$24.7 million under budget a total deficit of \$31.0 million could materialize.

At this point, both the Budget Department and Fiscal Analysis Division analysis are in the same range of a potential \$20.0 to \$32.3 million deficit in income tax collections.

Property Tax Collection – Property tax collections through December 31, 2009 are \$85.0 million. Since property taxes can be paid in total in August, or one-half in August and one-half in January, collections after August and prior to the end of January, should represent some percentage above 50%. In fact, historically property tax collections at December 31st represented about 60% of the total at the end of the year. Based on this property tax collections could deficit by \$26.0 million.

However, current year property taxes that are delinquent and unpaid in March of the fiscal year are turned over to Wayne County for collection. The County of Wayne sells bonds and reimburses the city for these delinquent property taxes. Therefore unless an adjustment for administrative costs for the program or for past taxes that are actually uncollectible by the County is required, property tax collections can be expected to match the budget, or deficit slightly, in the area of \$3.0 million, as estimated by the Budget Department.

Utility Users' Tax – Collection at the mid point of the fiscal year is \$11.5 million compared to a total budget of \$55.0 million. At this point this represents the lowest collection by \$2.0 million over any year in the recent past for this revenue, with \$13.6 million of collection reported in 2006-07. Using the historical collection factor would indicate a potential \$14.0 million year ending deficit. The \$14.0 million could be on the high end and the Budget Department's estimate of a zero to \$5.0 million deficit is optimistic.

State Revenue Sharing – According to the information available on the State of Michigan website as of the January consensus the combination of constitutional and statutory revenue sharing Detroit will receive is \$234.7 million compared to a budget of \$275.3 million, for a shortfall of \$40.6 million. This is an \$11.2 million increase in the estimated deficit compared the estimate in the Budget Department report. It is our belief that the Budget Department estimate used an earlier State revenue consensus estimate.

Wagering Tax – Per the regular monthly report on gaming revenue prepared by the Fiscal Analysis Division wagering taxes are estimated to deficit in the amount \$7.5

million. The 2009-10 collection of wagering tax is projected to be \$169.1 million compared to the budget of \$176.6 million.

All Other Revenue – The analysis of the collection of all other revenues remains an area that is very difficult to analyze as they represent a great number of individual revenue accounts throughout most agencies of the city. An analysis or projection for this group of revenues is not included in the Quarterly Financial Report from the Budget Department, as it is not required by the court order. During budget development when a city-wide surplus/deficit is provided by the Budget Department these accounts are usually the center of disagreement. At this point, through December 31, 2009 our analysis indicates a potential deficit of \$73.0 million.

Comparison Estimate for Fiscal 2009-10 Revenue and Appropriation Projections

| Table I – 2009-10 Projections (in millions) | | |
|--|--|--|
| | Budget Department Sept. 30, 2009 Estimate | Fiscal Analysis Division Dec. 31, 2009 Estimate |
| Municipal Income Tax | \$(25.0) - \$(32.3) | \$(20.0) - \$(31.0) |
| Property Taxes | 0 - (3.0) | (3.0) |
| Utility Users' Tax | 0 - (5.0) | (5.0) - (14.0) |
| State Revenue Sharing | (39.7) | (40.1) |
| Wagering Taxes | ? | (7.5) |
| All Other Revenues | ? | (73.0) |
| Total | \$(64.7) - \$(80.0) | \$(148.6) - \$(168.6) |
| Appropriation Projections | ? | \$32.8 |
| Total Projection | \$(69.0) | \$(115.8) - \$(135.8) |

2009-10 Appropriations – Fiscal Analysis

Using the raw numbers in the financial reporting system for the current year, as of December 31, 2009 and projecting out for the full year, with adjustments and assumptions, there is a potential overall appropriation surplus in the area of \$32.8 million. The assumptions relating to this estimate include: the actual recorded expenditures representing approximately 50% of the total that is expected for the full year, the amount of encumbrances reflected as of December 31, 2009 will be expended by year end, an adjustment for the prior year deficit appropriation, and adjustments for major expenses that have not been recorded as of December 31, 2009.

Overview Comparison of Accumulated Deficit

| Table I – Accumulated Deficit (in millions) | | | |
|---|--|-------------------|------------------------|
| | | Budget Department | Fiscal Analysis |
| Accumulated Deficit as of June 30, 2008 (audited) | | \$(219.2) | \$(219.2) |
| 2008-09 Fiscal Year Results (un-audited) | | \$(106.0) | \$(109.1) |
| 2009-10 Projected Fiscal Year Results | | \$(69.0) | \$(115.8) to \$(135.8) |
| Projected Accumulated Deficit as of June 30, 2010 | | \$(394.2) | \$(444.1) to \$(464.1) |

Short-term Borrowing and/or Fiscal Stabilization Bonds

One of the most troubling related issues, after the fact that by either analysis, expenditures continue to exceed revenue collection, on an annual basis continues, relates to the method of addressing the cash flow problem caused by the accumulated deficit. Over the last few years the Administration has used short-term borrowing, in the form of revenue and/or tax anticipation notes or RAN's and TAN's to address the cash flow problems faced by the city due to the ever increasing accumulated deficit. The amount of that borrowing has reached the \$230 million to \$250 million level on an annual basis.

Currently under consideration is the use of Fiscal Stabilization Bonds to spread the borrowing over a much longer period. This would reduce the risk of running out of cash, should the short-term borrowing market not accept new debt issued by Detroit. And hopefully reduce both the cost of issuance and interest expense related to the debt. The administration has indicated that with the approval and sale of \$250 million in Fiscal Stabilization Bonds, they would possibly still continue to rely on the sale of RAN's and TAN's to support cash flow.

The situation that seems to be developing is that the city has been supporting an accumulated deficit of \$219.2 million as reported in the June 30, 2008 Comprehensive Annual Financial Report, with the short term borrowing of \$230 million to \$250 million. The plan is to replace the short-term borrowing with Fiscal Stabilization Bonds in the same range of, \$230 million to \$250 million. However, the accumulated deficit is projected to be \$394 million by the Administration to \$464 million if our projections prove accurate. How will it be possible to manage cash flow, with the same level of borrowing \$230 million to \$250 million, if the basic cause of the cash problem, the accumulated deficit will be nearly double, or potentially even more than double?

Some part of the picture seems incomplete, and Council is entitled to a much better explanation from the Administration. When will expenditures on an annual basis match or actually be lower than revenues on an annual basis, so that the deficit does not continue to grow? And how can the cash flow be managed if the accumulated deficit doubles but the required borrowing will be at the same level? Is this an indication the city was borrowing more than was necessary on a short-term basis?

Summary

The most significant conclusion that can be made from our analysis is that the city has not reached the point of balancing current revenues with current expenditures, a critical step to improving the city's financial status. Delays in balancing the current budget and the pressure of carrying and even increasing the accumulated deficit could lead to an even direr fiscal crisis. Council must maintain a vigilant position and encourage quicker action by the Administration. The longer-range efforts undertaken by the administration are commendable but without balancing the budget in the short term, may end up being too little too late.

We look forward to and encourage questions and input from all Council Members and the Administration, as we firmly believe questions and open discussion can improve our ability to make projections in the future. And considering the magnitude of the fiscal challenges facing the city an open and transparent handling of the problems will lead to the best solution and an understanding and acceptance by the citizens of the solution.

Attachments (4)

cc: Council Divisions
Loren Monroe, Auditor General
Norman White, Chief Financial Officer
Tom Lijana, Finance Director
Pamela Scales, Budget Director
Arese Robinson, Mayor's Office



CITY OF DETROIT
BUDGET DEPARTMENT
ADMINISTRATION

Attachment I

COLEMAN A. YOUNG MUNICIPAL CENTER
2 WOODWARD AVENUE, SUITE 1100
DETROIT, MICHIGAN 48226
PHONE: 313-224-6260 TTY:311
FAX: 313-224-2827
WWW.DETROITMI.GOV

November 30, 2009

HONORABLE CITY COUNCIL:

RE: Quarterly Financial Report

Attached please find the quarterly financial report for the period ending September 30, 2009.

Consistent with the Deficit Elimination Plan adopted by your Honorable Body we are estimating a current year shortfall of \$69 million based on declines in the major revenues. The FY 2009 CAFR reflects an accumulated deficit of \$219 million and the current projection for FY 2009 is a \$106 million shortfall. We are implementing elements of the deficit elimination to address these shortfalls and will provide additional information as it becomes available.

I will be able to discuss this report, if necessary, at your convenience.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Pamela C. Scales", written over a circular stamp.

Pamela C. Scales
Budget Director

Attachment

cc: Dave Bing, Mayor
Kamau Marable, City Council Liaison
Norman White, Group Executive Finance

10-11-09 11:00 AM

DETROIT
CITY CLERK

PART I
GENERAL FUND
MAJOR SOURCES OF REVENUE AND ESTIMATED SURPLUS/(DEFICIT)
As of September 30, 2009

| | Total Annual Budget | Amount Collected through 09/30/09 | Better/(Worse) than Budget Year to Date | % Variance Better/(Worse) than Budget Year to Date | Remaining Annual Budget | % Collected to Date | | Estimated Year End Surplus/(Deficit) Manually Computed |
|----------------------------|---------------------------|--|---|---|-------------------------------|---------------------|---------------|---|
| | | | | | | Current Year | Prior Year | |
| Municipal Income Tax | \$ 245,000,000 | \$ 44,548,344 | \$ (16,701,656) | -27.27% | \$ 200,451,656 | 18.18% | 15.24% | \$ (25,000,000) - (32,300,000) |
| Current Year Property Tax | 167,707,321 | 77,650,940 | 35,724,110 | 85.21% | 90,056,381 | 46.30% | 46.86% * | 0 - (3,000,000) |
| Utility Users' Tax | 55,000,000 | 2,943,315 | (10,806,685) | -78.59% | 52,056,685 | 5.35% | 10.52% | 0 - (5,000,000) |
| State Revenue Sharing | | | | | | | | |
| Sales Tax - Constitutional | \$ 64,399,259 | \$ 588,808 | \$ (15,511,007) | -96.34% | \$ 63,810,451 | 0.91% | 0.00% | \$ (11,674,459) |
| Sales Tax - Statutory | 210,906,595 | (42,591,506) | (95,318,155) | -180.78% | 253,498,101 | -20.19% | 0.00% | (28,025,833) |
| Subtotal | \$ 275,305,854 | \$(42,002,698) | \$ (110,829,161) | -161.03% | \$ 317,308,552 | -15.26% | 0.00% | \$ (39,700,292) |
| Total | \$ 743,013,175 | \$ 83,139,900 | \$ (102,613,392) | -55.24% | \$ 659,873,275 | 11.19% | 16.59% | \$ (72,700,292) - (80,000,292) |

Note: State Equity revenues were eliminated from the General Fund upon the transfer of the Zoo and Historical operations to an independent agency in FY 2006.

Note: State Sales Tax- Statutory has a negative actual of (\$42,591,506), possibly an accrual reversal.

PART II
GENERAL FUND APPROPRIATIONS
(including fringe benefits)
ESTIMATED SURPLUS/(DEFICIT)
as of September 30, 2009

| | Total Annual Budget | Amount Expended through September 30, 2009 | Better/(Worse) than Budget Year to Date | % Variance Better/(Worse) than Budget Year to Date | Remaining Annual Budget | % Expended to Date Current Year Prior Year | | Estimated Year End Surplus/(Deficit) Manually Computed |
|----------------------|---------------------------|---|---|---|-------------------------------|--|-----------------|---|
| DEPT OF PUBLIC WORKS | \$ 8,937,900 | \$ 509,196 | \$ 1,725,279 | 77.21% | \$ 7,899,101 | 5.70% | 10.30% ** | \$100,000 - \$0 |
| FINANCE | 42,062,777 | 8,284,080 | 2,231,614 | 21.22% | 36,292,968 | 19.69% | 21.92% | \$1,000,000 - \$0 |
| FIRE | 185,902,973 | 44,445,029 | 2,030,714 | 4.37% | 139,865,173 | 23.91% | 25.47% | \$1,500,000 - \$0 |
| HEALTH | 22,918,640 | 4,193,946 | 1,535,714 | 26.80% | 18,415,570 | 18.30% | 16.70% | \$3,000,000 - \$0 |
| POLICE | 423,683,859 | 81,908,552 | 24,012,412 | 22.67% | 340,928,724 | 19.33% | 21.83% | \$6,000,000 - \$0 |
| PUBLIC LIGHTING | 58,876,622 | 6,206,455 | 8,512,701 | 57.83% | 24,925,104 | 10.54% | 26.24% | \$0 - \$0 |
| RECREATION | 24,399,058 | 3,808,169 | 2,291,596 | 37.57% | 20,626,099 | 15.61% | 18.29% | \$1,000,000 - \$0 |
| TOTAL | \$ 766,781,829 | \$ 149,355,429 | \$ 42,340,030 | 22.09% | \$ 588,952,740 | 19.48% | 22.57% * | \$12,600,000 - \$0 |

NOTE: Fringe Benefits (entire General Fund, excluding pensions) are estimated to surplus/deficit in the amount of (\$0).

** Beginning with fiscal year 2007- 08, the Department of Public Works refuse collection activity is recorded in a separate fund, Fund 3104- Solid Waste

STATE OF MICHIGAN
IN THE CIRCUIT COURT FOR THE COUNTY OF WAYNE

THE CITY COUNCIL FOR THE CITY
OF DETROIT, et al.,

Plaintiffs,

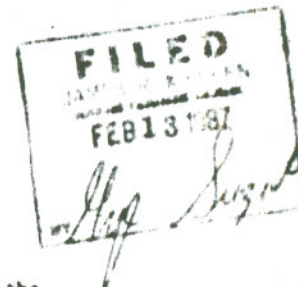
-v-

Civil Action No. 84-407168-AW

WALTER I. STEURER, individually
and in his official capacity as
Budget Director for the City of
Detroit,

Hon. Harry J. Dingeman, Jr.

Defendant.



ORDER

At a session of said Court held in the
City-County Building, City of Detroit,
County of Wayne, State of Michigan, on

FEB 13 1987

PRESENT: Hon. HARRY J. DINGEMAN, JR.
Circuit Court Judge

This cause having come before the Court on Stipulation of the parties,
and the Court being fully advised in the premises,

IT IS HEREBY ORDERED that:

1. The Budget Director of the City of Detroit shall submit to City
Council quarterly financial reports, the contents of which will be that required
by Parts I and II of a proposed report form appended to the Affidavit of Marie
Farrell-Donaldson filed by plaintiffs in support of their motion for summary
judgment hereto and attached hereto as Exhibit A (the "Farrell-Donaldson Affi-
davit"), with the following exceptions:

- a. Part II shall be supplemented by the addition of
the Health Department and Finance Department;
- b. Part II shall be supplemented by the inclusion of
an estimate of the non-departmental subsidy for
the Department of Transportation;
- c. The surplus and deficit estimates in Part II shall
be surplus and deficit estimates for entire depart-
ments, rather than only payroll and fringe benefits
expenditures as specified in the Farrell-Donaldson
Affidavit; provided that, surplus and deficit esti-
mates for fringe benefits shall be reported for the

entire fund rather than on a department-by-department basis, except for the report pertaining to the quarter ending June 30, wherein fringe benefits may be reported on a department-by-department basis, as was done in the report submitted by the Budget Director pertaining to the quarter ending June 30, 1986.

2. Reports shall be submitted four (4) times per year and shall pertain to the financial condition of the City of Detroit as of September 30, December 31, March 31 and June 30.

3. Reports shall be submitted within sixty (60) days of the end of the quarter to which they pertain.

IT IS FURTHER ORDERED that the Show Cause Order issued herein August 25, 1986 be vacated and that plaintiffs' claims herein relating to quarterly financial reports be dismissed with prejudice and without costs to any party.


Circuit Court Judge

BING ADMINISTRATION CRISIS TURNAROUND ACTION ITEMS

| SHORT-TERM (3 MOS) | MEDIUM-TERM (6 MONTHS) | LONG-TERM (1 YEAR +) |
|---|---|--|
| <p>Airport – Outsource management.</p> <p>Finance - Outsource payroll and collection of receivables.</p> <p>Finance – Reduce number of City bank accounts (currently 300) by 50%.</p> <p>Finance - Realize procurement cost reductions and process improvements. Hire a Chief Procurement Officer.</p> <p>Grants Management – Inventory and maximize stimulus dollars.</p> <p>Mayor's Office - Expand City Confidential to vendors, retirees, and former employees.</p> <p>Philanthropic Affairs - Re-establish relationships and present strategic plan to philanthropic community.</p> <p>Public Lighting Department – Close Mistersky Power Plant.</p> | <p>Budget - Eliminate discretionary spending.</p> <p>Citywide – Assess consolidation of services.</p> <p>Finance - Centralize accounting, revenue, and cash collection operations.</p> <p>Finance - Renegotiate procurement contracts and eliminate emergency purchases.</p> <p>Finance – Continue process improvements and centralization.</p> <p>Fire Department – Increase EMS outstanding debt collection.</p> <p>Information Technology Services – Consolidate and re-organize department (reduce 15 sites to 5, migrate from BRASS to ORACLE) and outsource services.</p> <p>Planning & Development – Coordinate Scattered Sites Project (Rehab/Acquisition and Demolition). P&DD, NDNI, B&SE, and DHC partnership.</p> | <p>Finance – Implement Deficit Elimination Plan.</p> <p>Finance - Restructure debt.</p> <p>Finance – Continue process improvements.</p> <p>Finance - Fully utilize ORACLE database management system for procurement activities.</p> <p>Human Resources – Implement personnel skill development and enhancement program.</p> <p>Information Technology Services – Standardize assets.</p> <p>Labor Relations - Reduction and consolidation of union representation.</p> <p>Mayor's Office - Consolidate NCH, 311 Call Center, and Community Affairs.</p> <p>Mayor's Office - Develop succession-planning process.</p> <p>Mayor's Office – Implement Operations Restructuring Plan.</p> <p>Planning & Development - Consolidate citywide leased and owned real estate inventory.</p> |

| | |
|------|--------------------------------------|
| DHC | Detroit Housing Commission |
| B&SE | Buildings & Safety Engineering |
| NCH | Neighborhood City Hall |
| NDNI | Next Detroit Neighborhood Initiative |
| P&DD | Planning & Development Department |

PART I
GENERAL FUND
MAJOR SOURCES OF REVENUES AND ESTIMATED SUPRLUS/DEFICIT
for Dec. 31, 2009, as of Jan. 2010
Prepared by the City Council Fiscal Analysis Division

| Column Calculation | B | C | D C x % | E | F E - D | G F / D | H C - E | I E / C | J |
|----------------------------|-----------------------------------|----------------------------|---|-----------------------------------|---|---|-------------------------------|--|---------------|
| | Total Adopted Annual Budget | Total Amended Budget | Budget for Report Period 50.0% | Collected through Dec. 2009 | Better/(Worse) than Budget Year to Date | % Variance Better/(Worse) than Budget Year to Date | Remaining Annual Budget | % Collected to Date Current Year | Prior Year |
| Municipal Income Tax | \$245,000,000 | \$245,000,000 | \$122,500,000 | \$97,790,633 | (\$24,709,367) | -20.17% | 147,209,367 | 39.91% | 37.55% |
| Current Year Property Tax | 167,707,321 | 167,707,321 | 83,853,661 | 85,007,564 | 1,153,904 | 1.38% | 82,699,757 | 50.69% | 49.54% |
| Utility Users' Tax | 55,000,000 | 55,000,000 | 27,500,000 | 11,496,895 | (16,003,105) | -58.19% | 43,503,105 | 20.90% | 27.25% |
| State Equity Package | | | | | | | | | |
| Historical | \$0 | \$0 | \$0 | \$0 | \$0 | #DIV/0! | \$0 | #DIV/0! | 0.00% |
| Zoological | 0 | 0 | 0 | 0 | 0 | #DIV/0! | 0 | #DIV/0! | 0.00% |
| Total | \$0 | \$0 | \$0 | \$0 | \$0 | #DIV/0! | \$0 | #DIV/0! | 0.00% |
| State Revenue Sharing | | | | | | | | | |
| Sales Tax - Constitutional | \$64,399,259 | \$64,399,259 | \$32,199,630 | \$10,287,101 | (\$21,912,529) | -68.05% | 54,112,158 | 15.97% | 18.45% |
| Sales Tax - Statutory | 210,906,595 | 210,906,595 | 105,453,298 | 54,570,329 | (\$50,882,969) | -48.25% | 156,336,266 | 25.87% | 10.09% |
| Total | \$275,305,854 | \$275,305,854 | \$137,652,927 | \$64,857,430 | (\$72,795,497) | -52.88% | \$210,448,424 | 23.56% | 11.99% |
| Grand Total | \$743,013,175 | \$743,013,175 | \$371,506,588 | \$259,152,522 | (\$112,354,065) | -30.24% | \$483,860,653 | 34.88% | 30.44% |
| Casino Gaming Fee | \$176,600,000 | \$176,600,000 | 88,300,000 | \$93,079,708 | \$4,779,708 | 5.41% | \$83,520,293 | 52.71% | 46.61% |

PART II
GENERAL FUND APPROPRIATIONS
(including fringe benefits)
for Dec. 31, 2009, as of Jan. 2010
Prepared by the City Council Fiscal Analysis Division

| Column Calculation | B | C | D C x % | E | F D - E | G F / D | H | I C-E-H | J E/C | K |
|----------------------------|-----------------------------------|----------------------------|---|--|---|---|---------------------------------|-------------------------------|--------------------|---------------|
| | Total Adopted Annual Budget | Total Amended Budget | Budget for Report Period 50.0% | Amount Expended through Dec. 2009 | Better/(Worse) than Budget Year to Date | % Variance Better/(Worse) than Budget Year to Date | Encumbrances at Dec. 2009 | Remaining Annual Budget | % Expended to Date | |
| | | | | | | | | | Current | Prior Year |
| DEPARTMENT OF PUBLIC WORKS | \$8,937,900 | \$11,861,638 | \$5,930,819 | \$2,596,468 | \$3,334,351 | 56.22% | \$3,284,918 | \$5,980,252 | 21.89% | 30.40% |
| FINANCE | 42,062,777 | 47,483,945 | 23,741,972 | 16,846,974 | \$6,894,998 | 29.04% | 2,339,337 | 28,297,634 | 35.48% | 41.64% |
| FIRE | 185,902,973 | 185,593,645 | 92,796,822 | 94,605,774 | (\$1,808,952) | -1.95% | 1,660,876 | 89,326,994 | 50.97% | 54.09% |
| HEALTH | 22,918,640 | 23,960,743 | 11,980,372 | 8,278,657 | \$3,701,715 | 30.90% | 1,062,821 | 14,619,265 | 34.55% | 33.07% |
| POLICE | 423,683,859 | 426,518,656 | 213,259,328 | 185,780,740 | \$27,478,588 | 12.89% | 2,206,233 | 238,531,683 | 43.56% | 48.86% |
| PUBLIC LIGHTING | 58,876,622 | 63,229,116 | 31,614,558 | 19,166,094 | \$12,448,464 | 39.38% | 25,114,157 | 18,948,864 | 30.31% | 49.71% |
| RECREATION | 24,399,058 | 29,898,656 | 14,949,328 | 8,511,721 | \$6,437,607 | 43.06% | 5,894,915 | 15,492,019 | 28.47% | 32.97% |
| | \$766,781,829 | \$788,546,398 | \$394,273,199 | \$335,786,430 | \$58,486,769 | 14.83% | 41,563,257 | 411,196,711 | 42.58% | 48.21% |